

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 CCO-00 /026 W

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC NIACT IMMEDIATE 4777

S E C R E T TEHRAN 12152

EXDIS

DEPARTMENT PLEASE PASS TO SECRETARY AND SECDEF

E.O. 11652: GDS

TAGS: MASS, IR

SUBJECT: SHARP GOI REACTION TO RISING COSTS OF DEFENSE

EQUIPMENT

REF: TEHRAN 12136(DTG 151700Z DEC 75)

1. IN MEETING DECEMBER 16, GENERAL TOUFANIAN COVERED MUCH THE SAME GROUND AS IN HIS CONVERSATION WITH DEFREP PREVIOUS EVENING. ADDITIONAL DETAILS FOLLOW. MAIN NEW POINT IS INTRODUCTION OF CONTINGENCY ELEMENT, I.E., IF OIL REVENUES REMAIN LOW, PROJECTS LISTED REFTEL WILL NOT GO FORWARD.

2. TOUFANIAN SAID IT SEEMED EVIDENT THAT STATE AND DOD BELIEVED MINISTRY OF WAR HAD UNLIMITED FUNDS AND WAS NOT SUBJECT TO BUDGETARY CONSTRAINTS. THIS WAS NOT TRUE. \$3 BILLION, WHICH HE HAD ALLOCATED TO U.S. PURCHASES, WOULD ALSO HAVE TO COVER CERTAIN PAYMENTS TO OTHER COUNTRIES. SINCE BEGINNING OF IRANIAN FISCAL YEAR IN MARCH, HE HAD AGREED TO NUMBER OF INCREASED CHARGES(E.G. AIR TRASNPORTATION, AMMUNITION AND SPARE PARTS) WITH EXPECTATION THAT USG WOULD EVENTUALLY BRING COSTS UNDER CONTROL. HOWEVER, DURING PAST 60 DAYS IRAN HAD RECEIVED NOTIFICATION OF MASSIVE \$1 BILLION ESCALATION IN SEVERAL CONTRACT CHARGES.

3. WHEN TOUFANIAN REPORTED TO SHAH ON DECEMBER 15 THAT HE
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HAD INSUFFICIENT FUNDS TO COVER ALL PLANNED FMS PROGRAMS,

SHAH INDICATED THAT IRANIAN PROJECTS WOULD HAVE TO BE CUT BACK IF OIL REVENUES REMAINED LOWER THAN ANTICIPATED. TOUFANIAN SAID AMERICAN COMPANIES WERE NOT EXPORTING SUFFICIENT OIL FROM IRAN TO PRODUCE REVENUES GOI REQUIRED FOR DEVELOPMENT. IF RPT IF OIL REVENUES DID NOT INCREASE, IRAN WOULD HAVE TO CANCEL OR SCALE DOWN PROGRAMS LISTED REFTEL. TOUFANIAN SUGGESTED THAT PERHAPS USG COULD PREVAIL UPON OIL COMPANIES TO INCREASE EXPORTS FROM IRAN.

4. ALMOST IN AN ASIDE, TOUFANIAN MENTIONED THAT A SOVIET ECONOMIC COMMISSION WOULD BE VISITING IRAN SHORTLY AND THERE WAS SOME PROSPECT THAT "DOOR WOULD BE OPEN" ON DEFENSE SALES. HE DID NOT DWELL ON THIS POINT BUT IN A VERY PERSIAN WAY OBVIOUSLY WISHED US TO ADD IT TO OUR CALCULATIONS.

5. TOURANIAN WAS CLEARLY APPEALING FOR USG HELP IN BRINGING COSTS UNDER CONTROL OR INCREASING OIL REVENUES GOI FEELS THERE IS STRONG MUTUALITY OF INTEREST IN IRANIAN PARTICIPATION IN ALL PROGRAMS NOW SUBJECT TO CANCELLATION. IRANIANS OBVIOUSLY FEEL, FOR EXAMPLE, THAT THEIR PURCHASES OF F-16 AND AWACS AND CONTRIBUTION TO DEVELOPMENT OF AMST WILL BENEFIT U.S. AS WELL AS IRAN. SHAH IS COUNTING ON USG TO BRING RELIEF BY PUTTING SOME KIND OF LID ON DEFENSE COST INFLATION OR HELPING IRAN TO EXPAND OIL EXPORTS.

6. FOREIGN MINISTER KHALATBARY CALLED AMBASSADOR IN MORNING OF DECEMBER 16 TO MAKE MUCH THE SAME POINT. HE SAID THAT U.S. COMPANY OIL LIFTINGS FROM IRAN WERE NOW DOWN TO ABOUT 4 MILLION PLUS BARRELS PER DAY. AT THIS RATE OF LIFTINGS, IRAN'S OIL REVENUE WOULD BE REDUCED BY \$4 BILLION PER CALENDAR YEAR. IF U.S. COMPANIES DO NOT CHANGE THEIR LIFTING PATTERNS, THEN IRAN OBVIOUSLY WILL HAVE TO CUT BACK ON MILITARY AND CIVILIAN PURCHASES FROM THE U.S. HE ASKED SPECIFICALLY WHETHER THE U.S. GOVERNMENT MIGHT NOT CONSIDER INTERVENING WITH U.S. OIL COMPANIES IN THIS MATER.

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7. COMMENT: IT IS NOT ENTIRELY CLEAR WHAT KHALATBARY HAD IN MIND WHEN HE CITED OIL LIFTING AND REVENUE FIGURES. FOR EXAMPLE, AVERAGE OIL LIFTING IN 1975 ARE RUNNING AT ABOUT 4.9 MILLION BARRELS PER DAY. IF THIS AVERAGE IS MAINTAINED DURING THE NEXT YEAR, WE ESTIMATE THAT REVENUE IN THE NEXT IRANIAN YEAR WILL BE ABOUT \$19.6 BILLION WHICH IS ABOUT \$900 MILLION LESS THAN THE CENTRAL BANK'S ESTIMATE FOR IRANIAN OIL REVENUE IN THE CURRENT YEAR. THEREFORE,

WHEN HE SPOKE OF OIL LIFTING BEING DOWN TO 4 MILLION
PLUS BARRELS PER DAY, HE MAY HAVE BEEN REFERRING TO
THE AVERAGE FOR THE MONTH OF OCTOBER AND THE FINANCIAL
CONSEQUENCES THAT WOULD FLOW FROM MAINTAINING THIS RATE
OF LIFTINGS THROUGHOUT THE COMING YEAR. IF
KHALATBARY'S ASSUMPTIONS WERE TO PROVE CORRECT, WE
ESTIMATE REVENUE WOULD BE ABOUT \$17.35 BILLION NEXT
IRANIAN YEAR.

HELMS

NOTE BY OCT: NOT PASSED ABOVE ADDRESSEES.

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Message Attributes

Automatic Decaptoning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COSTS, MILITARY PROCUREMENT, DEFENSIVE CAPABILITIES, GOVERNMENT REACTIONS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 DEC 1975
Decapton Date: 28 MAY 2004
Decapton Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TEHRAN12152
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750436-0780
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751237/aaaabhdg.tel
Line Count: 126
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 AUG 2003 by izenbei0>; APPROVED <26 NOV 2003 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SHARP GOI REACTION TO RISING COSTS OF DEFENSE EQUIPMENT
TAGS: MASS, IR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006